



**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

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December 13, 2010

TO: Supervisor Michael D. Antonovich, Mayor  
Supervisor Gloria Molina  
Supervisor Mark Ridley-Thomas  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe

FROM: Wendy L. Watanabe  
Auditor-Controller

SUBJECT: **FISCAL REVIEW OF ASHE, INCORPORATED – A GROUP HOME  
FOSTER CARE CONTRACTOR**

At the request of the Department of Children and Family Services (DCFS), we reviewed the fiscal operations of Ashe, Incorporated (Ashe or Agency) from July 1, 2007 through June 30, 2008. Ashe is licensed to operate three group homes (GH), each with a resident capacity of six children. Ashe's group homes are located in San Bernardino County.

DCFS and the Probation Department (Probation) contract with Ashe to care for foster children placed in the Agency's homes. The County paid Ashe \$5,613 per child per month, based on a rate determined by the California Department of Social Services, or a total of \$348,125 during Fiscal Year (FY) 2007-08.

The issuance of our report to your Board was delayed in part by changes in federal and State regulations regarding possible repayment of questioned costs from fiscal audits. To enable Ashe to begin taking corrective action immediately, we discussed the findings and recommendations from our review with Agency management and DCFS on July 8, 2009.

### **Summary of Findings**

We identified \$6,790 in unallowable costs and \$74,468 in unsupported/inadequately supported costs which included \$68,461 in loan repayments and rental charges for two properties owned by the Executive Director (ED). The Agency did not have a loan agreement with the ED, and we were unable to verify that the payments to the ED were in fact payments for a loan. In addition, while the Agency had a rental agreement for each of the leased properties, the payments to the ED for rental charges exceeded the amount indicated on the rental agreements. Further, DCFS and Ashe need to work together to resolve and collect overpayments.

Ashe needs to develop a cost allocation plan, adequately document its Board of Directors meetings, and strengthen its internal controls over accounting, disbursements, children's weekly allowances, bank reconciliations and personnel/payroll records. Ashe also needs to submit its 2007 and 2008 Semi-Annual Expenditure Reports to DCFS. Details of our findings are discussed in the attached report.

We recommend that DCFS resolve the questioned costs and collect any disallowed amounts and overpayments. DCFS should also ensure that Ashe management takes appropriate corrective actions to address the recommendations in this report and monitor to ensure that the actions result in permanent changes.

### **Review of Report**

We discussed our findings with Ashe management and DCFS on July 8, 2009 but were unable to issue our final report to your Board due to changes in federal and State regulations. The Agency's response, which is incorporated into DCFS' fiscal Corrective Action Plan (Attachment II), indicates the Agency's general agreement with our findings and recommendations. We thank Ashe management and staff for their cooperation during our review.

This audit is not intended to be, and does not constitute, the discovery or identification of an overpayment for purposes of the federal Improper Payments Act, related California State laws, including but not necessarily limited to Welfare and Institutions Code sections 11466.23, 11466.235, 11466.24, etc., nor State regulations intended to implement either the federal Improper Payments Act or related provisions in State law. This audit is intended solely to assist the County Department of Children and Family Services in managing its contractual relationships. Consequently, this report will be forwarded to the County Department of Children and Family Services in order that it might take further action, as it deems appropriate, based on its contents. Such further action may, or may not, include the discovery or identification of an overpayment for purposes of federal or State law.

Board of Supervisors  
December 13, 2010  
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Please call me if you have any questions, or your staff may contact Jim Schneiderman at (213) 253-0101.

WLW:MMO:JLS:MWM

Attachments

c: William T Fujioka, Chief Executive Officer  
Patricia S. Ploehn, Director, DCFS  
Cynthia McCoy-Miller, Administrative Deputy III, DCFS  
Donald H. Blevins, Chief Probation Officer  
Claudius Wright, Executive Director, Ashe, Inc.  
Board of Directors, Ashe, Inc.  
Cora Dixon, Bureau Chief, Foster Care Audit Bureau, CA Dept. of Social Services  
Commission for Children and Families  
Public Information Office  
Audit Committee

**Ashe, Incorporated**  
**Fiscal Review**

**REVIEW OF EXPENDITURES/REVENUES**

We identified \$6,790 in unallowable costs and \$74,468 in unsupported/inadequately supported costs. In addition, DCFS and Ashe need to work together to resolve potential overpayments. Details of these costs/overpayments are discussed below.

**Applicable Regulations and Guidelines**

Ashe is required to operate its GH in accordance with the following federal, State and County regulations and guidelines:

- GH Contract, including Exhibit C-2, the Auditor-Controller Group Home Contract Accounting and Administration Handbook (A-C Handbook)
- Federal Office of Management and Budget Circular A-122, Cost Principles for Non-Profit Organizations (OMB Circular A-122)
- California Department of Social Services Manual of Policies and Procedures (CDSS-MPP)
- California Code of Regulations, Title 22 (Title 22)

**Unallowable Costs**

We identified \$6,790 in unallowable expenditures:

- \$3,387 in late fees and finance charges.
- \$658 in a donation to the Martin Luther King Foundation and parking violations.
- \$2,745 in bank overdraft and non-sufficient fund (NSF) fees.

OMB Circular A-122 identifies penalties, interest and donations as unallowable costs.

**Unsupported/Inadequately Supported Costs**

A-C Handbook Section A.3.2 states that all expenditures shall be supported by original vouchers, invoices, receipts, or other supporting documents, and that unsupported expenditures will be disallowed upon audit. We identified \$74,468 that were not supported or were not adequately supported.

- \$68,461 in inadequately supported payments to the Executive Director. The Agency indicated that the payments in question were loan repayments and rental charges for two properties owned by the Executive Director. However, the Agency did not have loan agreements and the Executive Director indicated that the loans payable account balance on the general ledger appear to be overstated.

In addition, the Agency could not provide supporting documentation establishing the accuracy of the loan balances and repayments. Since Ashe did not have a current set of audited financial statements available, we could not refer to the Agency's independent audit to assess the reasonableness of the loan balances and payments. We also noted that while the Agency was able to provide a rental agreement for each of the leased properties, the payments to the Executive Director for rental charges exceeded the amount indicated on the rental agreements. We did verify that the actual rental payments on leased properties were reasonable according to the CDSS – MPP.

- \$4,564 in inadequately supported credit card expenses. The Agency provided credit card statements, but no receipts, or the receipts provided were inadequate to substantiate that the expenses were GH related.
- \$1,443 in other inadequately supported expenses for vehicle operating costs, groceries, restaurant expense and court costs. The Agency provided cancelled checks but not receipts or invoices. Therefore, we could not substantiate that these expenses were program related.

During our review period, Ashe had GH agreements with three other counties in addition to Los Angeles County. As discussed later in the "Allocation of Costs" section of this report, Ashe does not have a plan to allocate its administrative costs among its funding sources. As a result, it is possible that some of the questioned costs discussed in this section were related to the GH programs of other counties. Once the Agency develops a cost allocation plan, DCFS should determine the appropriate amount of unallowable and unsupported/inadequately supported costs that should be recovered.

### **Recommendations**

1. **DCFS management resolve \$81,258 (\$6,790 + \$74,468) in questioned costs and collect any disallowed amounts.**

#### **Ashe management:**

2. **Ensure that foster care funds are used for allowable expenditures to carry out the purpose and activities of the Agency.**

3. **Consistently maintain adequate supporting documentation for all Agency expenditures, including original itemized receipts, invoices and loan agreements.**

### **POTENTIAL DCFS OVERPAYMENTS**

DCFS records show potential overpayments made to the Agency. DCFS and Ashe should work together to resolve the overpayments and collect any verified overpayments. Ashe management should also ensure that any future payment discrepancies are immediately reported to DCFS and any excess amounts are repaid promptly.

### **Recommendations**

4. **DCFS management work with Ashe to resolve the overpayments and collect any verified overpayments.**
5. **Ashe management ensure that any future payment discrepancies are immediately reported to DCFS and any excess amounts are repaid promptly.**

### **ALLOCATION OF COSTS**

A-C Handbook Section C.2.0 states that an agency should allocate expenditures that benefit multiple programs or funding sources on an equitable basis. During our review period, Ashe operated the group home program and received funding from Los Angeles, Alameda, Riverside and San Diego County.

The Agency records all administrative costs at the group home program level, but does not allocate the costs to the individual counties with which it contracts. Since these costs are not allocated to the group home programs of the individual counties, Ashe's financial records do not readily disclose the full cost of operating the County's Group Home Program. Ashe should develop a plan to allocate administrative expenses to each county on an equitable basis.

### **Recommendation**

6. **Ashe management develop a plan to allocate administrative expenses to each county on an equitable basis.**

### **CONTRACT COMPLIANCE AND INTERNAL CONTROLS**

We noted the following internal control weaknesses during our review.

**Board Minutes**

The California Corporations Code Section 6320 (Code) requires nonprofit corporations to keep a written record of board meetings. To comply with the Code, we believe that the Agency's Board of Directors meeting minutes should include an accurate record of what was done, such as time, place, who was present, what was discussed, results of all votes taken, and what decisions were made and why.

Ashe's Board minutes do not provide detailed information of their quarterly meetings. The Board minutes only list the topics that were discussed.

**Recommendation**

- 7. Ashe management ensure Board of Directors meeting minutes include a detailed record of topics discussed and votes taken.**

**Financial Audit**

The GH Contract requires group home agencies to have a financial audit conducted, by an independent audit firm, every year in conjunction with the CDSS rate setting process.

Ashe is not in compliance with this contract requirement because Ashe's last financial audit was for Fiscal Year (FY) 2004-05. Therefore, another audit is required for FY 2007-08.

**Recommendation**

- 8. Ashe management ensure a financial audit is conducted for FY 2007-08 and submit the audit report to DCFS as required by the GH Contract.**

**Accounting and Disbursement Procedures**

We noted the following issues with the Agency's accounting and disbursement procedures:

- Sixteen (21%) of 77 expenditures reviewed were not properly classified on the general ledger. For example, a payment to an exterminator was classified as Child-Personal and Incidental Expense. A-C Handbook Section A.2.5 indicates that agencies must post transactions of a similar nature to the same account.
- The payee was also the check signer for 33 checks, totaling \$113,031. Proper disbursement procedures require a second signature from someone independent of the transaction to verify the appropriateness of the expense.

- Sixteen (21%) of the 77 expenditures reviewed were not marked “paid” and check numbers were not referenced to supporting documents to prevent reuse or duplicate payments as required by the A-C Handbook Section B.2.1.
- We identified ten checks, totaling \$5,257 made payable to cash. A-C Handbook Section B.2.0 states that checks shall not be made payable to cash.

**Recommendations****Ashe management:**

9. **Classify expenditures on the general ledger in a consistent manner.**
10. **Require a second signature on all checks where the payee and the check signer is the same employee.**
11. **Ensure supporting documentation are consistently referenced to check numbers and marked “paid” or otherwise cancelled to prevent reuse or duplicate payments.**
12. **Ensure checks are not made payable to cash.**

**Children’s Weekly Allowance Requirements**

DCFS GH Contract Statement of Work Section 3.13 states that the contractor shall provide each placed child a base allowance appropriate to age and reasonably commensurate with peer group standards.

We reviewed the allowance logs for five Los Angeles County foster children and noted that two children were not paid the appropriate weekly allowance as required by the Contract.

**Recommendation**

13. **Ashe management ensure the allowance paid to each child is age appropriate in accordance to the GH Contract.**

**Personnel/Payroll Records**

CDSS-MPP Section 11-402 requires that supporting documentation be maintained for all program expenditures, including salary rates. We reviewed twelve employee personnel files and noted that none of them contained the employees’ current authorized salary rates. Ashe should ensure personnel files contain current salaries/hourly wages approved by management.



**Recommendation**

14. Ashe management ensure personnel files contain current salaries/ hourly wages approved by management.

**Reporting Payments to Independent Contractors**

A-C Handbook Section A.2.6 requires agencies to comply with all applicable federal and State requirements for reporting payments to independent contractors. We noted that Ashe did not report payments to one independent contractor to the Internal Revenue Service using a 1099 (Miscellaneous Income) Form.

**Recommendation**

15. Ashe management ensure that all payments to independent contractors are reported to the federal taxing agency.

**Bank Reconciliations**

A-C Handbook Section B.1.4 requires bank reconciliations be prepared within 30 days of the bank statement date, and reviewed by management for appropriateness and accuracy. The bank reconciliations should be signed and dated by both the preparer and the reviewer.

We reviewed the Agency's general and payroll monthly bank reconciliations and noted the following:

- Bank reconciliations for August 2007, October 2007, February 2008, April 2008 and June 2008 were not available for our review for either the general or payroll accounts.
- Bank reconciliations for the seven months reviewed were not signed by the preparer or reviewer and were not prepared within 30 days of the bank statement date based on the printout date identified on the reconciliations.

**Recommendation**

16. Ashe management ensure that bank reconciliations are prepared within 30 days of the bank statement date and signed and dated by the preparer and reviewer.

**Semi-Annual Expenditure Reports**

The Group Home Contract Section 17.0 requires agencies to prepare and submit Semi-Annual Expenditure Reports to DCFS within 60 days after the end of each semi-annual reporting period.

Ashe did not prepare Semi-Annual Expenditure Reports for 2007 and 2008. DCFS indicated that the last report they received from the Agency covered July 1, 2006 through December 31, 2006.

**Recommendation**

- 17. Ashe management prepare and submit the Semi-Annual Expenditure Reports for 2007 and 2008 to DCFS.**



PATRICIA S. PLOEHN, LCSW  
Director

**County of Los Angeles  
DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

425 Shatto Place, Los Angeles, California 90020  
(213) 351-5602

December 7, 2010

Claudius Wright, Executive Director  
Ashe, Incorporated  
34201 5th Place  
Yucaipa, CA 92399-2659

Dear Mr. Wright:

**FISCAL REVIEW OF ASHE, INCORPORATED – A GROUP HOME FOSTER CARE  
CONTRACTOR**

We have reviewed your fiscal corrective action plan (FCAP) in response to the Auditor Controller's fiscal audit report for the period of July 1, 2007 through June 30, 2008. The FCAP fully addresses 17 recommendations (see Attachment III). In addition, the two recommendations directed to DCFS were fully addressed.

In regards to recommendation #1, please provide any additional documents not previously shared with the Auditor-Controller for DCFS to review by December 15, 2010.

If you have any questions, please contact Ali Gomaa-Mersal of my staff at (213) 351-3209.

Sincerely,

Latisha Thompson, ASM III  
Fiscal Monitoring and Special Payments

**Attachments**

- c: Mike McWatters, Chief Audit Division (via electronic mail only)
- Russell Lingo, Principal Accountant-Auditor (via electronic mail only)

Board of Supervisors  
GLORIA MOLINA  
First District  
MARK RIDLEY-THOMAS  
Second District  
ZEV YAROSLAVSKY  
Third District  
DON KNABE  
Fourth District  
MICHAEL D. ANTONOVICH  
Fifth District

**FISCAL REVIEW OF  
ASHE, INCORPORATED  
A GROUP HOME FOSTER CARE CONTRACTOR**

**Note:** Department of Children and Family Services (DCFS) will only review documentation not previously provided to the Auditor-Controller.

**Summary of Recommendations**

Based on the FCAP submitted by Ashe Incorporated, status of each recommendation is summarized as follows:

- 17 Recommendations (1-17) were fully addressed.
- 2 Recommendations (1&4) directed to the Department were addressed.

**Recommendation Status**

1. **DCFS management resolves \$81,258 (\$6,790 + \$74,468) in questioned costs and collect any disallowed amounts.**

**Agency Proposed FCAP:** Ashe will provide additional documentation not previously presented to resolve the \$74,468 in Auditor-Controller identified unsupported/inadequately supported costs.

**DCFS Response:** Please provide any additional documents not previously shared with the Auditor-Controller for DCFS to review by December 15, 2010.

2. **Ashe management ensures that foster care funds are used for allowable expenditures to carry out the purpose and activities of the Agency.**

**Agency Proposed FCAP:** Ashe management takes extensive steps to ensure that foster care funds are only used to carry out the purpose and activities of the Agency. Certain fees and costs that are disallowed were not known to be disallowed at the time that they were assumed, for example interest fees on credit charges. Management has used the information and feedback received during the review to update its procedures and advise accordingly as to the new guidelines.

Individual officers may authorize the expenditure of up to \$200 of association funds in carrying out Agency business without Board approval. In such cases, the officer must notify the treasurer in writing that a bill has been authorized. He/She must send an original bill with his/her authorization letter. All routine

expenditures over \$200 must be recommended and approved by a vote of the Executive Board.

**DCFS Response:** DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

3. **Ashe management consistently maintain adequate supporting documentation for all Agency expenditures, including original itemized receipts, invoices and loan agreements.**

**Agency Proposed FCAP:** Ashe Inc. will purchase a digital receipt scanner and require that administrative staff scan and log receipts for every purchase and expenditure made. A monthly expenditure report will be generated. Board will be required to review and approve each monthly expenditure report at each Board meeting. Original receipts will be kept in a separate file to serve as supporting document for all expenses accrued.

**DCFS Response:** DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

4. **DCFS management work with Ashe to resolve the overpayments and collect any verified overpayments.**

**Agency Proposed FCAP:** Ashe will work with DCFS management to resolve any overpayments that may be in question. Ashe management will provide documentation and supporting evidence to resolve what, if any fees may be due.

**DCFS Response:** DCFS accepts the agency's response.

5. **Ashe management ensure that any future payment discrepancies are immediately reported to DCFS and any excess amounts are repaid promptly.**

**Agency Proposed FCAP:** Ashe will internally audit payments on a monthly basis to determine if over payments have been made and notify DCFS accordingly. Overpayment funds will be promptly refunded to DCFS accordingly.

**DCFS Response:** DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

6. **Ashe management develop a plan to allocate administrative expenses to each county on an equitable basis.**

**Agency Proposed FCAP:** Ashe Inc. will keep a log of all residents and allocate administrative expenses according to the percentage of residents each county has currently placed with Agency as well as fees specific to residents of a particular county. In addition a cost allocation breakdown of the fiscal year that is being audited is being submitted to determine the appropriate amount that is owed by the Agency to DCFS – LA County.

**DCFS Response:** DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

7. **Ashe management ensure board of directors' minutes of their meetings include a detailed record of topics discussed, decisions made, and votes taken.**

**Agency Proposed FCAP:** Ashe will continue to keep the minutes of all board of directors meetings and secretary will be responsible for keeping more detailed notes and will keep a record of decisions made and votes taken.

**DCFS Response:** DCFS accepts the agency's response. Please submit Board- approved policies/procedures that ensure compliance with the recommendation. Please submit a copy of last three (3) most recent board meeting minutes to DCFS.

8. **Ashe management ensure a financial audit is conducted for FY 2007-2008 and submit the audit report to DCFS as required by the GH Contract.**

**Agency Proposed FCAP:** Audit has been completed and submitted to DCFS.

**DCFS Response:** DCFS accepts the agency's response.

9. **Ashe management properly classify expenditures on the general ledger in a consistent manner.**

**Agency Proposed FCAP:** Ashe Inc.'s CPA will review classification procedures and make changes as necessary to ensure that classifications are proper and consistent in the general ledger. The ledger will be reviewed in quarterly board meetings.

**DCFS Response:** DCFS accepts the agency's response.

10. **Ashe management require a second signature on all checks where the payee and the check signer is the same employee.**

**Agency Proposed FCAP:** Ashe will designate a secondary signer whom will be responsible for providing a second signature and endorsing all checks where the payee and the check signer are the same employee.

**DCFS Response:** DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

11. **Ashe management ensure supporting documentation are consistently referenced to check numbers and marked "paid" or otherwise cancelled to prevent reuse or duplicate payments.**

**Agency Proposed FCAP:** Ashe will cross-reference checks by noting check numbers and invoices with the correlating information and as such marking paid to such cross-referenced checks to prevent reuse and duplicate payments.

**DCFS Response:** DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

12. **Ashe management ensure checks are not made payable to cash.**

**Agency Proposed FCAP:** Ashe management will not endorse checks to cash and will assign expenditures accordingly.

**DCFS Response:** DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

13. **Ashe management ensure the allowance paid to each child is age appropriate in accordance to the GH Contract.**

**Agency Proposed FCAP:** Ashe will review and make any adjustments necessary to ensure that allowance paid to each child is age appropriate and in accordance to the GH Contract.

**DCFS Response:** DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

14. **Ashe management ensure personnel files contain current salaries/hourly wages approved by management.**

**Agency Proposed FCAP:** All personnel files will be reviewed on a regular basis to make sure all documentation is up to date and that they contain current salaries/hourly wages approved by management. In the event of raises, status

changes, etc. files will be updated accordingly within thirty (30) days of said significant changes.

**DCFS Response:** DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

15. **Ashe management ensure that all payments to independent contractors are reported to the federal taxing agency.**

**Agency Proposed FCAP:** Ashe will keep a log of all payments made to independent contractors and submit to the payroll agency who will in turn report all such payments to the federal taxing agency.

**DCFS Response:** DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

16. **Ashe management ensure that bank reconciliations are prepared within 30 days of the bank statement date, and signed and dated by the preparer and reviewer.**

**Agency Proposed FCAP:** Ashe management will review monthly bank records within 30 days of bank statement date and have the assigned preparer and review sign off accordingly.

**DCFS Response:** DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation. Please submit a copy of the last three (3) month's bank statements & respective reconciliation's to DCFS.

17. **Ashe management prepare and submit the Semi-Annual Expenditure Reports for 2007 and 2008 to DCFS.**

**Agency Proposed FCAP:** The Semi-Annual Expenditure Reports for 2007 and 2008 have been submitted to DCFS.

**DCFS Response:** DCFS accepts the agency's response.